

VZCZCXRO7483  
RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSR  
DE RUEHVI #0700 1630938  
ZNR UUUUU ZZH  
R 120938Z JUN 09 ZDK  
FM AMEMBASSY VIENNA  
TO RUEHC/SECSTATE WASHDC 2715  
INFO RUCPDOG/USDOC WASHDC  
RUEATRS/DEPT OF TREASURY WASH DC  
RUCNMEM/EU MEMBER STATES

UNCLAS VIENNA 000700

SIPDIS

E.O. 12958: N/A

TAGS: [EIND](#) [ECON](#) [EFIN](#) [AU](#)

SUBJECT: Magna/Opel: Austria Likely to Guarantee EUR 300 Million  
Loan to Protect Jobs, Production

REF: (A) Vienna 642; (B) Vienna 91

¶1. Austrian Vice Chancellor/Minister of Finance Josef Proell has announced that Austria may issue a loan guarantee to Austro-Canadian Magna International, the prospective buyer of Opel/GM Europe. Magna is eligible for up to EUR 300 million in loan guarantees under a reprogrammed EUR 10 billion fund (pending expected parliamentary approval in July) which the GoA has designated for protecting industrial jobs in Austria (ref A). Proell indicated the GoA would ask Magna for a commitment to the "GM Powertrain" engine/transmission plant in Vienna/Aspern before granting guarantees.

¶2. Subsequently, a Ministry of Finance spokesman clarified that the GoA has not committed itself to Magna, and will not hold official talks until the Opel takeover by Magna is finalized and the loan guarantee program becomes law. If loans are extended, they will be guaranteed by the Austrian Control Bank.

#### BACKGROUND

- - - - -

¶3. Like other European countries, the Austrian government has inserted itself in the Opel takeover process to head off major facility closures, which would represent a massive disinvestment and the potential loss of thousands of manufacturing jobs. Both GM/Opel and Magna are major employers in Austria:

-- Since its establishment 26 years ago, GM Powertrain (which produces compact engines and transmissions for Opel and other brands) has been the largest U.S. investment in Austria and remains a major employer in the Vienna area (currently about 1,800 workers).

Until last year's automotive crisis, GM Powertrain was reportedly a profitable operation for GM, which sold some engines to Fiat and others. In January 2009, most GM Powertrain workers were put on reduced hours/furlough status (ref B), but scrapping bonuses in Germany and Austria, which have kindled new-car sales, helped the unit return to normal production in May.

-- Led by Austro-Canadian Frank Stronach -- a prominent figure in Austria -- Magna has been a high-profile employer in the country since the 1990s. Magna assembles passenger cars and light trucks for major brands at its Magna Steyr facility in Graz. In recent years the facility has built the BMW X3; Chrysler Voyager/Grand Voyager, 300C sedan and Touring; Jeep Grand Cherokee & Commander; Mercedes-Benz E-class 4MATIC and G-class; and Saab 9-3; upcoming models include the Aston Martin Rapide, Peugeot 308 RC Z, and Porsche next-Generation Boxster and Cayman. As of December 2008, it employed about 5,000 workers in Graz, about 4,000 of whom are on short-time status until at least October 2009 (ref B). The Magna-Steyr assembly plant forms the core of southern Austria's "auto cluster" which accounts for tens of thousands of jobs. Austria is also home to Magna's European headquarters, 16 manufacturing plants, and nine engineering and development facilities.

COMMENT

- - - - -

14. Austria needs both Opel and Magna. From the GoA's perspective, the new loan guarantee program offers a timely mechanism to extend assistance to Magna. With so much at stake, the GoA will do all it can to support automotive production and sales -- not just the EUR 300 million guarantee currently on offer. By tying Magna's fate to that of Opel, however, the takeover is risky: if Magna fails to turn Opel around, both pillars of Austria's automotive industry (which accounts for a tenth of Austria's industrial production and 65,000 jobs) will be in peril.

ORDWAY